

Exploring *the* Arts

**Exploring the Arts, Inc.
Financial Statements
(Together with Independent Auditors' Report)**

Years Ended June 30, 2022 and 2021

EXPLORING THE ARTS, INC.
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
of Exploring the Arts, Inc.
New York, NY

Opinion

We have audited the financial statements of Exploring the Arts, Inc. ("ETA"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ETA as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of Financial the Statements* section of our report. We are required to be independent of the ETA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on 2021 Financial Statements

The financial statements of ETA as of and for the year ended June 30, 2021, were audited by another auditor whose report dated February 17, 2022 expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ETA's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ETA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ETA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Mayer Hoffman McCann CPAs

New York, NY
March 14, 2023

**EXPLORING THE ARTS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2022 AND 2021**

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents (Notes 2C and 11A) | \$ 278,101 | \$ 133,448 |
| Investments (Notes 2D and 5) | 2,661,211 | 3,577,852 |
| Contributions receivable, net (Notes 2E and 4) | 880,608 | 326,250 |
| Accounts receivables, net (Note 9) | - | 139,624 |
| Other assets | 71,015 | 72,384 |
| Property and equipment, net (Notes 2F and 6) | <u>3,757</u> | <u>10,126</u> |
| TOTAL ASSETS | <u>\$ 3,894,692</u> | <u>\$ 4,259,684</u> |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 137,330 | \$ 119,053 |
| Deferred revenue | - | 36,000 |
| Deferred rent (Note 10A) | 1,484 | 3,329 |
| Paycheck Protection Program loan payable (Note 8) | <u>-</u> | <u>174,822</u> |
| TOTAL LIABILITIES | <u>138,814</u> | <u>333,204</u> |
| COMMITMENTS AND CONTINGENCIES (Note 10) | | |
| NET ASSETS (Notes 2B and 7) | | |
| Without Donor Restrictions: | | |
| General operations | 350,842 | 936,173 |
| Board designated funds | <u>1,821,955</u> | <u>1,821,955</u> |
| Total Without Donor Restrictions | 2,172,797 | 2,758,128 |
| With Donor Restrictions (Note 7) | <u>1,583,081</u> | <u>1,168,352</u> |
| TOTAL NET ASSETS | <u>3,755,878</u> | <u>3,926,480</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,894,692</u> | <u>\$ 4,259,684</u> |

The accompanying notes are an integral part of these financial statements.

EXPLORING THE ARTS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

| | <u>For the Year Ended June 30, 2022</u> | | | <u>For the Year Ended June 30, 2021</u> | | |
|--|---|------------------------------------|---------------------|---|------------------------------------|---------------------|
| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>TOTAL</u> | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>TOTAL</u> |
| REVENUES: | | | | | | |
| PUBLIC SUPPORT AND REVENUES: | | | | | | |
| Special events revenue | \$ 534,102 | \$ - | \$ 534,102 | \$ - | \$ - | \$ - |
| Less: Costs of direct benefits to donors (Note 2H) | (98,774) | - | (98,774) | - | - | - |
| Special events, net | 435,328 | - | 435,328 | - | - | - |
| Foundations, corporations, individuals and other (Notes 2E, 2J, 8 and 11B) | 410,214 | 1,160,258 | 1,570,472 | 427,982 | 211,770 | 639,752 |
| In-kind contributions (Note 2J) | 50,225 | - | 50,225 | 49,200 | - | 49,200 |
| Investment activity (Notes 2D and 5) | (341,641) | - | (341,641) | 32,161 | - | 32,161 |
| Forgiveness of Paycheck Protection Program loan (Note 8) | 174,822 | - | 174,822 | 168,706 | - | 168,706 |
| Employee Retention Tax Credit (Note 9) | 60,304 | - | 60,304 | 138,877 | - | 138,877 |
| Other revenue | - | - | - | 3,641 | - | 3,641 |
| Net assets released from restrictions (Note 7) | 745,529 | (745,529) | - | 947,349 | (947,349) | - |
| TOTAL PUBLIC SUPPORT AND REVENUES | <u>1,534,781</u> | <u>414,729</u> | <u>1,949,510</u> | <u>1,767,916</u> | <u>(735,579)</u> | <u>1,032,337</u> |
| EXPENSES (Note 2I): | | | | | | |
| Program Services | | | | | | |
| Arts Internship Program | 468,454 | - | 468,454 | 521,586 | - | 521,586 |
| Four Year Plan | 745,244 | - | 745,244 | 618,289 | - | 618,289 |
| Lang Arts Scholars | 221,095 | - | 221,095 | 179,887 | - | 179,887 |
| Other | 108,375 | - | 108,375 | 123,896 | - | 123,896 |
| Total Program Services | <u>1,543,168</u> | <u>-</u> | <u>1,543,168</u> | <u>1,443,658</u> | <u>-</u> | <u>1,443,658</u> |
| Supporting Services: | | | | | | |
| Management and general | 397,155 | - | 397,155 | 440,834 | - | 440,834 |
| Fundraising | 179,789 | - | 179,789 | 90,586 | - | 90,586 |
| Total Supporting Services | <u>576,944</u> | <u>-</u> | <u>576,944</u> | <u>531,420</u> | <u>-</u> | <u>531,420</u> |
| TOTAL EXPENSES | <u>2,120,112</u> | <u>-</u> | <u>2,120,112</u> | <u>1,975,078</u> | <u>-</u> | <u>1,975,078</u> |
| CHANGE IN NET ASSETS | (585,331) | 414,729 | (170,602) | (207,162) | (735,579) | (942,741) |
| Net assets - beginning of year | 2,758,128 | 1,168,352 | 3,926,480 | 2,965,290 | 1,903,931 | 4,869,221 |
| NET ASSETS - END OF YEAR | <u>\$ 2,172,797</u> | <u>\$ 1,583,081</u> | <u>\$ 3,755,878</u> | <u>\$ 2,758,128</u> | <u>\$ 1,168,352</u> | <u>\$ 3,926,480</u> |

The accompanying notes are an integral part of these financial statements.

EXPLORING THE ARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
(With Comparative Totals for June 30, 2021)

| | Program Services | | | | | Supporting Services | | | Total 2022 | Total 2021 |
|--------------------------------------|-------------------|-------------------|--------------------|-------------------|---------------------------|---------------------------|-------------------|------------------------------|---------------------|---------------------|
| | Arts Internship | | Lang Arts Scholars | Other | Total Program Services | Management and General | Fundraising | Total Supporting Services | | |
| | Program | Four Year Plan | | | | | | | | |
| PERSONNEL EXPENSES | | | | | | | | | | |
| Salaries | \$ 205,441 | \$ 313,201 | \$ 92,925 | \$ 58,642 | \$ 670,209 | \$ 167,495 | \$ 39,833 | \$ 207,328 | \$ 877,537 | \$ 886,786 |
| Payroll taxes and employee benefits | 48,530 | 73,985 | 21,951 | 13,853 | 158,319 | 39,566 | 9,410 | 48,976 | 207,295 | 207,978 |
| Total Personnel Costs | 253,971 | 387,186 | 114,876 | 72,495 | 828,528 | 207,061 | 49,243 | 256,304 | 1,084,832 | 1,094,764 |
| OTHER EXPENSES | | | | | | | | | | |
| Travel and conference | 288 | 440 | 131 | 165 | 1,024 | 1,131 | 62 | 1,193 | 2,217 | 1,308 |
| Rent | 39,009 | 59,470 | 17,644 | 11,135 | 127,258 | 31,803 | 7,563 | 39,366 | 166,624 | 166,523 |
| Donated rent (Note 2J) | - | - | - | - | - | - | - | - | - | - |
| Office expenses | 2,336 | 3,562 | 1,057 | 667 | 7,622 | 11,616 | 3,858 | 15,474 | 23,096 | 25,783 |
| Student development | 155,433 | - | - | 11,736 | 167,169 | - | - | - | 167,169 | 252,041 |
| School support | - | 268,031 | 79,507 | 7,205 | 354,743 | - | - | - | 354,743 | 199,320 |
| Professional and consulting fees | 13,113 | 19,992 | 5,933 | 3,743 | 42,781 | 141,567 | 110,037 | 251,604 | 294,385 | 217,323 |
| Insurance | 2,721 | 4,149 | 1,231 | 777 | 8,878 | 2,219 | 528 | 2,747 | 11,625 | 8,274 |
| Production and other event expenses | - | - | - | - | - | - | 75,370 | 75,370 | 75,370 | - |
| Food and venue | - | - | - | - | - | - | 31,595 | 31,595 | 31,595 | - |
| Depreciation (Note 6) | 1,491 | 2,273 | 674 | 426 | 4,864 | 1,216 | 289 | 1,505 | 6,369 | 7,280 |
| Miscellaneous | 92 | 141 | 42 | 26 | 301 | 542 | 18 | 560 | 861 | 2,462 |
| Subtotal | 468,454 | 745,244 | 221,095 | 108,375 | 1,543,168 | 397,155 | 278,563 | 675,718 | 2,218,886 | 1,975,078 |
| Less: direct costs of special events | - | - | - | - | - | - | (98,774) | (98,774) | (98,774) | - |
| TOTAL EXPENSES | <u>\$ 468,454</u> | <u>\$ 745,244</u> | <u>\$ 221,095</u> | <u>\$ 108,375</u> | <u>\$ 1,543,168</u> | <u>\$ 397,155</u> | <u>\$ 179,789</u> | <u>\$ 576,944</u> | <u>\$ 2,120,112</u> | <u>\$ 1,975,078</u> |

**EXPLORING THE ARTS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021**

| | Program Services | | | | Total Program Services | Supporting Services | | Total Supporting Services | Total 2021 |
|--------------------------------------|----------------------------|-------------------|--------------------|-------------------|---------------------------|---------------------------|------------------|------------------------------|---------------------|
| | Arts Internship Program | Four Year Plan | Lang Arts Scholars | Other | | Management and General | Fundraising | | |
| PERSONNEL EXPENSES | | | | | | | | | |
| Salaries | \$ 206,957 | \$ 299,847 | \$ 81,935 | \$ 46,346 | \$ 635,085 | \$ 197,430 | \$ 54,271 | \$ 251,701 | \$ 886,786 |
| Payroll taxes and employee benefits | 48,538 | 70,323 | 19,216 | 10,870 | 148,947 | 46,303 | 12,728 | 59,031 | 207,978 |
| Total Personnel Costs | 255,495 | 370,170 | 101,151 | 57,216 | 784,032 | 243,733 | 66,999 | 310,732 | 1,094,764 |
| OTHER EXPENSES | | | | | | | | | |
| Travel and conference | - | - | - | - | - | 1,308 | - | 1,308 | 1,308 |
| Rent | 38,863 | 56,306 | 15,386 | 8,703 | 119,258 | 37,074 | 10,191 | 47,265 | 166,523 |
| Donated rent (Note 2J) | - | - | - | - | - | - | - | - | - |
| Office expenses | 2,359 | 3,418 | 934 | 528 | 7,239 | 17,350 | 1,194 | 18,544 | 25,783 |
| Student development | 199,973 | - | - | 52,068 | 252,041 | - | - | - | 252,041 |
| School support | - | 146,729 | 52,591 | - | 199,320 | - | - | - | 199,320 |
| Professional and consulting fees | 20,803 | 35,735 | 8,204 | 4,464 | 69,206 | 136,989 | 11,128 | 148,117 | 217,323 |
| Insurance | 1,931 | 2,798 | 765 | 432 | 5,926 | 1,842 | 506 | 2,348 | 8,274 |
| Depreciation (Note 6) | 1,699 | 2,462 | 673 | 381 | 5,215 | 1,619 | 446 | 2,065 | 7,280 |
| Miscellaneous | 463 | 671 | 183 | 104 | 1,421 | 919 | 122 | 1,041 | 2,462 |
| Subtotal | 521,586 | 618,289 | 179,887 | 123,896 | 1,443,658 | 440,834 | 90,586 | 531,420 | 1,975,078 |
| Less: direct costs of special events | - | - | - | - | - | - | - | - | - |
| TOTAL EXPENSES | \$ 521,586 | \$ 618,289 | \$ 179,887 | \$ 123,896 | \$ 1,443,658 | \$ 440,834 | \$ 90,586 | \$ 531,420 | \$ 1,975,078 |

The accompanying notes are an integral part of these financial statements.

**EXPLORING THE ARTS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

| | 2022 | 2021 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (170,602) | \$ (942,741) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 6,369 | 7,280 |
| Discount on contributions | 65,992 | (1,525) |
| Forgiveness of Paycheck Protection Program loan payable | (174,822) | (168,706) |
| Realized/Unrealized loss on investments | 378,930 | 54,935 |
| Subtotal | 105,867 | (1,050,757) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in assets: | | |
| Contributions receivable | (620,350) | 578,778 |
| Other receivables | 139,624 | (139,624) |
| Other assets | 1,369 | (1,916) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 18,277 | 32,874 |
| Deferred revenue | (36,000) | - |
| Deferred rent | (1,845) | (644) |
| Net Cash Provided by (Used In) Operating Activities | (393,058) | (581,289) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of fixed assets | - | (2,778) |
| Proceeds from sales of investments | 575,000 | - |
| Purchases of investments | (37,289) | (80,876) |
| Net Cash Provided by (Used in) Investing Activities | 537,711 | (83,654) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from loan payable | - | 174,822 |
| Net Cash Provided by Financing Activities | - | 174,822 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 144,653 | (490,121) |
| Cash and cash equivalents - beginning of year | 133,448 | 623,569 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 278,101 | \$ 133,448 |
| Supplemental Non-Cash Disclosure: | | |
| Forgiveness of Paycheck Protection Program loan | \$ 174,822 | \$ 168,706 |

The accompanying notes are an integral part of these financial statements.

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 — ORGANIZATION AND NATURE OF ACTIVITIES

Founded in 1999 by Tony Bennett and Susan Benedetto, Exploring the Arts (“ETA”) is a 501(c)(3) nonprofit organization whose mission is to transform the lives of young people through arts education. At the heart of ETA’s work is a vision to provide greater equity of resources and opportunities in the arts to traditionally underserved teens in New York City and Los Angeles County. ETA offers its programs and support to designated ETA Partner Schools. Currently, ETA serves 52 Partner Schools in New York City and Los Angeles County.

ETA’s original Partner School is Frank Sinatra School of the Arts (“FSSA”), founded by Tony Bennett and Susan Benedetto in partnership with the NYC Department of Education. FSSA serves grades 9-12 and all students major in one of the following disciplines: Theatre, Film & Media Arts, Fine Art, Vocal Music, Instrumental Music, or Dance. Exploring the Arts completed a successful capital campaign to help support the construction of a new, award-winning building for FSSA. FSSA moved into its state-of-the-art new home at the start of the 2009-10 school year in Mr. Bennett’s hometown of Astoria, Queens at the Kaufman Astoria Studios Complex.

ETA achieves its mission through the following major programs:

- **Arts Internship Program (formerly known as Apprenticeship Program)**, which places 11th and 12th graders from predominantly Title 1, public high schools in NYC and LA as paid interns in one-to-one mentorship with professionals at arts and culture organizations after-school and on weekends from October to May. ETA also runs a shorter version of the program in the summer months. It is on average 70 hours in the program for the school-year. Students receive arts training, assist on office projects, engage with master works, and form transformative relationships with trusted, caring adults working in their field of interest. More than 1,000 teens have been served by the Arts Internship Program to date.
- **Four Year Plan**, which is to create sustainable arts programming during the school day in middle and high schools in NY and LA, most of which have Title 1 classification. Through its core initiative, ETA provides strategic planning, funding, and assessment support over the course of four years to help principals and teachers build rigorous and sustainable, school-day arts programs. Although the focus of each Partner School’s Four Year Plan is unique, their goals must align with one of ETA’s three identified priorities: 1) to develop a new, sequenced arts curriculum; 2) to increase the rigor of already-established arts courses; 3) to integrate the arts into academic courses.
- **Arts Access Program**, which provides arts and academic subject teachers from ETA Partner Schools with critical resources and funding to help support the arts in their classrooms. Awarded grants may be used for arts supplies and equipment, cultural field trips, and work with teaching artists.
- **Turnaround Arts: NYC**, which is in partnership with the Kennedy Center in DC’s national program. ETA leverages the unique power of the arts in education to accelerate transformation in high-poverty, low performing schools. ETA implements this program in four Bronx middle schools, creating a pipeline of students to equitably compete for seats in the City’s arts high schools.
- **Lang Arts Scholars**, which launched in 2019 and provides select teens from ETA’s NYC Partner Schools with fully-funded, intensive training in the performing arts, coupled with a wrap-around, college and career preparatory curriculum. Students will participate during after-school, weekend, and summer hours for three consecutive years.
- **Network Programming**, which helps to increase teacher capacity through professional development opportunities and peer learning communities.

EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. **Basis of Accounting** – ETA’s financial statements have been prepared on the accrual basis of accounting. ETA adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).
- B. **Basis of Presentation** – ETA reports gifts of cash and other assets as support without donor restrictions unless they are received with donor restrictions and stipulations that limit the use of the donated assets in which case they are reported as net assets with donor restrictions.

ETA maintains its net assets under the following two classes:

- Net Assets without Donor Restrictions – represents resources available for support of ETA’s operations over which the Board of Directors has discretionary control. Board designated reserve funds consist of funds generated from past operating surplus, and designated for ETA’s future expansion projects.
 - Net Assets with Donor Restrictions – net assets resulting from contributions and other inflows of assets whose use by ETA is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of ETA pursuant to those stipulations. When such stipulations end or are fulfilled, such donor restricted net assets are reported in the statements of activities as net assets released from restrictions.
- C. **Cash and Cash Equivalents** – Cash equivalents consist of all highly liquid instruments acquired with maturities of three months or less.
- D. **Investments** – Investments are stated at fair value. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and interest and dividends are recognized as revenue in the period earned. Fair value measurements are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 5.
- E. **Unconditional Promises to Give** – Contributions are nonexchange transactions and accounted for under Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2018-08, Clarifying the Scope of Accounting Guidance for Contributions Received and Contributions Made (Topic 958). Contributions are recognized as revenue when barriers within the contract are overcome, and there is no right of return/release from obligation. Contributions amounted to \$1,620,697 and \$688,952 for the years ended June 30, 2022 and 2021, respectively, which have been recognized on the financial statements.

Contributions of assets other than cash are recorded at their estimated fair values. Pledge payments scheduled to be received after one year are discounted at a discount rate commensurate with the risks involved. ETA discounts long-term pledges using a risk-adjusted interest rate for the expected term of the promise to give applicable to the years in which the pledges are received. As of June 30, 2022 and 2021, the discount on contributions receivable amounted to \$65,992 and \$0, respectively. Conditional promises to give, such as those requiring matching funds, are recognized as revenue in the period in which the conditions are substantially met.

Historically, ETA has not experienced significant bad debt losses. As of June 30, 2022 and 2021, ETA determined that an allowance for uncollectible accounts was not necessary. The determination is based on ETA’s historical loss experience, creditworthiness of the donors and considering the use of the receivables.

- F. **Property and Equipment** – Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. ETA capitalizes all property and equipment having a cost of \$1,000 or more and a useful life of at least one year. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

**EXPLORING THE ARTS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- G. **Use of Estimates** – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reporting amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- H. **Special Events** – The direct costs of special events include expenses incurred for the benefit of the donor. Such direct costs include meals and facilities rental.
- I. **Functional Expenses** – The costs of program and supporting services have been summarized on a functional basis in the statements of functional expenses. Certain indirect costs have been allocated by management between programs and supporting services based on a percentage of direct program expenses. The expenses that are allocated include rent, office expenses, printing, postage, professional and consulting fees, insurance and miscellaneous, which are allocated on the basis of estimates of time and effort.
- J. **Donated Rent** – ETA rents space at the Studios that has a fair market value of approximately \$11,000 a month. The President of the Studios is an ETA Board member and through January 31, 2022, donated a portion of the rent at its estimated fair value of \$4,400 per month. ETA accounts for the donated rent in the accompanying financial statements as support and as an expense. The difference of the donated portion and the fair market value is recognized as rent expense. See Note 10A for additional information.

Donated rent for the year ended June 30, 2022 consisted of the following:

| <u>Nonfinancial Asset</u> | <u>Amount</u> | <u>Usage in Programs/Activities</u> | <u>Donor-imposed Restrictions</u> | <u>Fair Value Techniques</u> |
|---------------------------|---------------|-------------------------------------|-----------------------------------|---|
| In-Kind Rent | \$ 50,225 | General Operations | Without Restrictions | Assessed based on office space's market value less current rent being paid. |

Donated materials for the year ended June 30, 2021 consisted of the following:

| <u>Nonfinancial Asset</u> | <u>Amount</u> | <u>Usage in Programs/Activities</u> | <u>Donor-imposed Restrictions</u> | <u>Fair Value Techniques</u> |
|---------------------------|---------------|-------------------------------------|-----------------------------------|---|
| In-Kind Rent | \$ 49,200 | General Operations | Without Restrictions | Assessed based on office space's market value less current rent being paid. |

- K. **Recent Accounting Pronouncement** – FASB ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)* was adopted for the year ended June 30, 2022. The core guidance is to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure, as further described in Note 2J.
- L. **Reclassification** – Certain items in the June 30, 2021, financial statements have been reclassified to conform to the June 30, 2022 presentation. These classifications had no impact on the change in net assets for the year ended June 30, 2021.

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NOTE 3 — LIQUIDITY AND AVAILABILITY OF ETA RESOURCES FOR GENERAL EXPENDITURES

ETA regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment return within acceptable levels of risk. ETA has various sources of liquidity at its disposal, including cash and investments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, ETA considers all expenditures related to its ongoing program activities as well as the supporting services to be general expenditures.

As of June 30, 2022 and 2021, financial assets available for general expenditure within 12 months were as follows:

| | <u>2022</u> | <u>2021</u> |
|--|--------------------|---------------------|
| Cash and cash equivalents | \$ 278,101 | \$ 133,448 |
| Contributions and accounts receivable, net | 880,608 | 465,874 |
| Investments | <u>2,661,211</u> | <u>3,577,852</u> |
| Total Financial Assets | 3,819,920 | 4,177,174 |
| Less: Net assets with donor restrictions | (1,583,081) | (1,168,352) |
| Less: Board designated | <u>(1,821,955)</u> | <u>(1,821,955)</u> |
| Total | <u>\$ 414,884</u> | <u>\$ 1,186,867</u> |

NOTE 4 — CONTRIBUTIONS RECEIVABLE

Contributions receivable amounted to \$880,608 and \$326,250 as of June 30, and are expected to be collected as follows:

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Contributions due: | | |
| Within one year | \$ 246,600 | \$ 176,250 |
| In one to five years | <u>700,000</u> | <u>150,000</u> |
| Gross contributions receivable | 946,600 | 326,250 |
| Discount for net present value (3.01%) | <u>(65,992)</u> | <u>-</u> |
| Net contributions receivable | <u>\$ 880,608</u> | <u>\$ 326,250</u> |

NOTE 5 — INVESTMENTS AND FAIR VALUE MEASUREMENTS

In determining fair value, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible, in its assessment of fair value.

The fair value hierarchy defines three levels as follows:

- Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. It also includes mutual funds which are valued at the net asset value (“NAV”) of shares. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for similar assets or liabilities.

EXPLORING THE ARTS, INC.
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NOTE 5 — INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

- Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models or similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instruments. For the years ended June 30, 2022 and 2021, there were no such transfers.

Investments, measured at fair value on a recurring basis, are classified as Level 1 and consisted of the following as of June 30:

| | <u>2022</u> | <u>2021</u> |
|------------------------------------|---------------------|---------------------|
| Fixed Income: | | |
| AB Intermediate Duration Portfolio | \$ <u>2,661,211</u> | \$ <u>3,577,852</u> |
| Total | \$ <u>2,661,211</u> | \$ <u>3,577,852</u> |

Investments are subject to market volatility that could substantially change their carrying value in the near term. The AB funds are managed by professional investment advisors within the scope of ETA's Board-approved investment policy.

Return on investment consisted of the following for the years ended June 30:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|------------------|
| Interest and dividends | \$ 45,241 | \$ 93,316 |
| Unrealized and realized loss on investments | (378,930) | (54,935) |
| Investment fees | <u>(7,952)</u> | <u>(6,220)</u> |
| Total | \$ <u>(341,641)</u> | \$ <u>32,161</u> |

NOTE 6 — PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of June 30:

| | <u>2022</u> | <u>2021</u> | <u>Estimated Useful Lives</u> |
|--------------------------------|-----------------|------------------|-------------------------------|
| Computers | \$ 21,706 | \$ 30,627 | 36 Months |
| Leasehold Improvements | 14,620 | 14,620 | 54-55 Months |
| Less: Accumulated Depreciation | <u>(32,569)</u> | <u>(35,121)</u> | |
| Net Book Value | \$ <u>3,757</u> | \$ <u>10,126</u> | |

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NOTE 6 — PROPERTY AND EQUIPMENT, NET (Continued)

Depreciation expense reported in the statements of functional expenses for the years ended June 30, 2022 and 2021, amounted to \$6,369 and \$7,280, respectively. During the year ended June 30, 2022, ETA wrote off fully depreciated assets of \$8,921.

NOTE 7 — NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30:

| | <u>2022</u> | <u>2021</u> |
|----------------------------------|---------------------|---------------------|
| Purpose restricted: | | |
| Tony Bennett sustainability fund | \$ 715,280 | \$ 715,280 |
| LIHSA Restricted Fund | - | 56,200 |
| Lang Arts Program | 867,801 | 396,872 |
| Time restricted | <u>-</u> | <u>-</u> |
| Total | <u>\$ 1,583,081</u> | <u>\$ 1,168,352</u> |

Net assets of \$745,529 and \$947,349 were released from donor restrictions during the years ended June 30, 2022 and 2021, respectively, by incurring the expenses satisfying the restricted purpose of providing program services or by the passage of time.

NOTE 8 — PAYCHECK PROTECTION PROGRAM LOANS PAYABLE

On March 27, 2020, in response to COVID-19, the federal government passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Among many other provisions, to help businesses retain employees, the CARES Act provides relief to qualifying businesses through a program called the Paycheck Protection Program (“PPP”). Participating in the PPP enables the business to obtain a loan from the Small Business Administration (“SBA”) sector of the government. If the proceeds from the loan are used for specified purposes, some or all of the loan can be forgiven.

On March 30, 2020, ETA applied for this loan through JPMorgan Chase Bank, N.A., an SBA authorized lender. The loan, amounting to \$168,706, was approved and received in April 2020. ETA has opted to account for the proceeds as a loan under FASB ASC 470, *Debt*, until the loan is, in part or wholly, forgiven and ETA has been “legally released.” On June 17, 2021, ETA received full forgiveness of the loan and recognized the revenue during the year ended June 30, 2021.

On February 7, 2021, ETA was approved for a second-draw PPP loan amounting to \$174,822. The terms and conditions of the second-draw loan are the same as in the first loan. On December 14, 2021, ETA received full forgiveness of the loan and recognized the revenue during the year ended June 30, 2022.

NOTE 9 — EMPLOYEE RETENTION TAX CREDIT

During the year ended June 30, 2022, ETA benefited from credits related to the passage of the CARES Act on March 27, 2020, in response to the COVID-19 crisis. Under the CARES Act, ETA qualified for an Employee Retention Tax Credit (“ERTC”) for revenue loss due to the COVID-19 crisis. As a result of the CARES Act, ETA recorded revenue of \$60,304 and \$138,877 for the years ended June 30, 2022 and 2021, respectively, which is included in the accompanying statements of activities. There is no assurance that regulatory authorities will not challenge ETA’s claim to the ERTC, and it is not possible to determine the impact (if any) this would have upon ETA.

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NOTE 10 — COMMITMENTS AND CONTINGENCIES

- A. ETA has a lease agreement for five years for office space at the Studios that expired on January 31, 2023. ETA entered a new lease agreement for office space at the Studios effective February 1, 2023, which is subject to annual rent escalations and expires January 31, 2026. The monthly rent for the year ended June 30, 2022 was approximately \$11,000. The office is located in a building owned by an entity controlled by a member of the Board of Directors. A portion is recorded as donated rent, see Note 2J.

In January 2020, ETA entered into a lease agreement for two years for office space in Pasadena, CA where ETA pays a monthly fee, which expired January 31, 2022. ETA entered a new lease agreement for the office space in Pasadena, CA effective February 1, 2022 that expires January 31, 2024. The monthly fee for each of the years ended June 30, 2022 and 2021 amounted to \$2,650.

Future minimum rental commitments under these leases for the remaining years ending subsequent to June 30, 2022 are approximately as follows:

| | |
|------|------------------|
| 2023 | \$ <u>49,000</u> |
| | \$ <u>49,000</u> |

Rent expense for the years ended June 30, 2022 and 2021 amounted to \$161,730 and \$161,251, respectively.

- B. ETA believes it has no uncertain tax positions as of June 30, 2022 and 2021 in accordance with Accounting Standards Codification (“ASC”) Topic 740, *Income Taxes*, which provides standards for establishing and classifying any tax provision for uncertain tax positions.

NOTE 11 — CONCENTRATION

- A. Cash and cash equivalents that potentially subject ETA to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation’s (“FDIC”) insurance limits. Cash accounts are insured up to \$250,000 per depositor, per insured institution. As of June 30, 2022 and 2021, there was approximately \$71,000 and \$0, respectively, of cash and cash equivalents held by one bank that exceeded FDIC limits. Such excess includes outstanding checks.
- B. For the year ended June 30, 2022, ETA derived 41% of its public support revenue from two donors. For the year ended June 30, 2021 ETA derived 47% of its revenue from contributions associated with its founder’s personal and business contacts.

NOTE 12 — SUBSEQUENT EVENTS

ETA has evaluated events subsequent to the date of the statement of financial position through March 14, 2023, the date the financial statements were available to be issued.